

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable B.D. Wilson, Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Montgomery County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montgomery County, Kentucky, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable B.D. Wilson, Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

Montgomery County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006 on our consideration of Montgomery County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise Montgomery County, Kentucky's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the comment and recommendation, included herein, which discusses the following report comment.

2006-1 The Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Morgan-Franklin, LLC". The signature is written in a cursive, flowing style.

Morgan-Franklin, LLC

Audit fieldwork completed
November 22, 2006

MONTGOMERY COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Banford D. Wilson
Lloyd G. Cassidy
S. Norman Lansdale
Frank M. Sponcil

County Judge/Executive
Commissioner
Commissioner
Commissioner

Other Elected Officials:

Paul D. Cowden
Everett D. Myers
Judy L. Witt
Connie Curtis
Fred D. Shortridge
Linda Cockrell
Wallace Johnson

County Attorney
Jailer
County Clerk
Circuit Court Clerk
Sheriff
Property Valuation Administrator
Coroner

Appointed Personnel:

Forrest Brown
Barbara Reynolds
Casey J. Puckett

County Treasurer
Occupational Tax Collector
Finance Officer

**MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2006

MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,535,877	\$ 109,503	\$ 2,645,380
Notes Receivable	75,202		75,202
Payroll Clearing Account	123,501		123,501
Total Current Assets	<u>2,734,580</u>	<u>109,503</u>	<u>2,844,083</u>
Noncurrent Assets:			
Notes Receivable	30,108		30,108
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	584,000		584,000
Buildings	3,621,944		3,621,944
Other Equipment	174,527		174,527
Vehicles and Equipment	168,666		168,666
Infrastructure Assets - Net of Depreciation	<u>1,495,347</u>		<u>1,495,347</u>
Total Noncurrent Assets	<u>6,074,592</u>		<u>6,074,592</u>
Total Assets	<u>8,809,172</u>	<u>109,503</u>	<u>8,918,675</u>
LIABILITIES			
Current Liabilities:			
Payroll Clearing Account	123,501		123,501
Revenue Bonds	38,270		38,270
Financing Obligations	<u>440,007</u>		<u>440,007</u>
Total Current Liabilities	<u>601,778</u>		<u>601,778</u>
Noncurrent Liabilities:			
Revenue Bonds	407,742		407,742
Financing Obligations	<u>20,811</u>		<u>20,811</u>
Total Noncurrent Liabilities	<u>428,553</u>		<u>428,553</u>
Total Liabilities	<u>1,030,331</u>		<u>1,030,331</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	5,137,654		5,137,654
Restricted For:			
Expendable	4,484		4,484
Nonexpendable	75,000		75,000
Unrestricted	<u>2,561,703</u>	<u>109,503</u>	<u>2,671,206</u>
Total Net Assets	<u>\$ 7,778,841</u>	<u>\$ 109,503</u>	<u>\$ 7,888,344</u>

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,520,997	\$ 164,319	\$ 414,955	\$ 503,283
Protection to Persons and Property	1,798,954	1,095,340	141,603	
General Health and Sanitation	294,913			
Social Services	100,302			
Recreation and Culture	83,873			
Roads	855,730		997,323	
Airports	25,000			
Interest on Long-term Debt	56,186			
Capital Projects	4,303			
Total Governmental Activities	6,740,258	1,259,659	1,553,881	503,283
Business-type Activities:				
Jail Canteen	189,694	217,089		
Total Business-type Activities	189,694	217,089		
Total Primary Government	\$ 6,929,952	\$ 1,476,748	\$ 1,553,881	\$ 503,283

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Payroll Taxes
Net Profit Tax
Deed Transfer Tax
Solid Waste Tax
Bank Franchise Deposit Tax
Other Taxes

Licenses and Permits

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,438,440)	\$	\$ (2,438,440)
(562,011)		(562,011)
(294,913)		(294,913)
(100,302)		(100,302)
(83,873)		(83,873)
141,593		141,593
(25,000)		(25,000)
(56,186)		(56,186)
(4,303)		(4,303)
(3,423,435)		(3,423,435)
	27,395	27,395
	27,395	27,395
(3,423,435)	27,395	(3,396,040)
549,260		549,260
75,511		75,511
148,198		148,198
2,218,818		2,218,818
496,874		496,874
103,533		103,533
124,847		124,847
86,258		86,258
59,916		59,916
110,225		110,225
209,437		209,437
92,684		92,684
146,859		146,859
4,422,420		4,422,420
998,985	27,395	1,026,380
6,779,856	82,108	6,861,964
\$ 7,778,841	\$ 109,503	\$ 7,888,344

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

June 30, 2006

MONTGOMERY COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Health And Civic Center Fund	Revolving Loan Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,627,573	\$ 23,545	\$ 20,752	\$ 262,386	\$ 467,791
Total Assets	<u>\$ 1,627,573</u>	<u>\$ 23,545</u>	<u>\$ 20,752</u>	<u>\$ 262,386</u>	<u>\$ 467,791</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 7,404	\$ 23,545	\$ 20,752	\$	\$
Permanent Fund - Senior Care					
Unreserved:					
General Fund	1,620,169				
Special Revenue Funds				262,386	467,791
Total Fund Balances	<u>\$ 1,627,573</u>	<u>\$ 23,545</u>	<u>\$ 20,752</u>	<u>\$ 262,386</u>	<u>\$ 467,791</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,535,877
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities of \$10,016,474 net of accumulated depreciation of \$3,971,990, are not financial resources and, therefore, are not reported in the funds.	6,044,484
Notes Receivables are not reported in the funds.	105,310
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Revenue Bonds	(446,012)
Financing Obligations	(460,818)
Net Assets Of Governmental Activities	<u>\$ 7,778,841</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non Major Funds	Total Governmental Funds
\$ 133,830	\$ 2,535,877
<u>\$ 133,830</u>	<u>\$ 2,535,877</u>

\$ 75,000	\$ 51,701
	75,000
	1,620,169
<u>58,830</u>	<u>789,007</u>
<u>\$ 133,830</u>	<u>\$ 2,535,877</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Health And Civic Center Fund
REVENUES				
Taxes	\$ 3,863,216	\$	\$	\$
Excess Fees	209,437			
Licenses and Permits	110,225			
Intergovernmental	621,905	1,176,484	1,163,930	45,735
Charges for Services		8,455	93,898	15,692
Miscellaneous	81,150		34,038	110,105
Interest	75,697	1,268	367	1,612
Total Revenues	<u>4,961,630</u>	<u>1,186,207</u>	<u>1,292,233</u>	<u>173,144</u>
EXPENDITURES				
General Government	1,521,715			
Protection to Persons and Property	363,503		1,337,809	
General Health and Sanitation	175,054			87,771
Social Services	85,823			
Recreation and Culture	83,873			
Roads		1,364,801		
Airports	25,000			
Road Facilities		21,618		
Debt Service	164,323		68,000	
Capital Projects				
Administration	1,510,348	200,365	305,043	17,545
Total Expenditures	<u>3,929,639</u>	<u>1,586,784</u>	<u>1,710,852</u>	<u>105,316</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,031,991</u>	<u>(400,577)</u>	<u>(418,619)</u>	<u>67,828</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	75,000	400,273	408,670	
Transfers To Other Funds	(841,443)			(75,000)
Total Other Financing Sources (Uses)	<u>(766,443)</u>	<u>400,273</u>	<u>408,670</u>	<u>(75,000)</u>
Net Change in Fund Balances	265,548	(304)	(9,949)	(7,172)
Fund Balances - Beginning	1,362,025	23,849	30,701	269,558
Fund Balances - Ending	<u>\$ 1,627,573</u>	<u>\$ 23,545</u>	<u>\$ 20,752</u>	<u>\$ 262,386</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

<u>Revolving Loan Fund</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 3,863,216
		209,437
		110,225
	108,581	3,116,635
		118,045
78,004		303,297
11,781	1,960	92,685
<u>89,785</u>	<u>110,541</u>	<u>7,813,540</u>
		1,521,715
	32,500	1,733,812
		262,825
	14,479	100,302
		83,873
	98,916	1,463,717
		25,000
		21,618
		232,323
	4,301	4,301
<u>23,175</u>		<u>2,056,476</u>
<u>23,175</u>	<u>150,196</u>	<u>7,505,962</u>
<u>66,610</u>	<u>(39,655)</u>	<u>307,578</u>
	32,500	916,443
		(916,443)
	<u>32,500</u>	<u>0</u>
66,610	(7,155)	307,578
401,181	140,985	2,228,299
<u>\$ 467,791</u>	<u>\$ 133,830</u>	<u>\$ 2,535,877</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 307,578
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	894,412
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Depreciation Expense	(304,846)
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Asset Disposed of, Net Book Value	(1,450)
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Notes Receivable Principal Received is recorded in the funds as revenue, however in the government-wide financial statements it results in an increase in cash and decrease in notes receivable which has no effect on net assets.

	(72,846)
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Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations	140,148
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Bond Payments	35,989
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Change in Net Assets of Governmental Activities	<u>\$ 998,985</u>
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The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Jail Canteen Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 109,503	
Total Assets	<u>109,503</u>	
Net Assets		
Unrestricted	109,503	
Total Net Assets	<u>\$ 109,503</u>	

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 217,089
Total Operating Revenues	<u>217,089</u>
Operating Expenses	
Cost of Sales	126,338
Educational and Recreational	42,679
Miscellaneous	397
Total Operating Expenses	<u>169,414</u>
Operating Income (Loss)	<u>47,675</u>
Non-Operating Revenues/(Expenses)	
Inmate Refunds	(20,521)
Interest Earned	241
Total Non-Operating Expenses	<u>(20,280)</u>
Change In Net Assets	27,395
Total Net Assets - Beginning	<u>82,108</u>
Total Net Assets - Ending	<u><u>\$ 109,503</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 217,089	
Cost of Sales	(126,338)	
Educational and Recreational	(42,679)	
Miscellaneous	(397)	
Net Cash Provided/(Used) By Operating Activities	<u>47,675</u>	
Cash Flows From Noncapital Financing Activities		
Inmate Refunds on Accounts	(20,521)	
Net Cash Provided/(Used) By Noncapital Financing Activities	<u>(20,521)</u>	
Cash Flows From Investing Activities		
Interest Earned	241	
Net Cash Provided/(Used) By Investing Activities	<u>241</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	27,395	
Cash and Cash Equivalents - July 1, 2005	<u>82,108</u>	
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 109,503</u></u>	

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented or blended component units.

C. Montgomery County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Montgomery County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Property Tax Calendar

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied October 1, due at discount October 30, due at face value December 30, delinquent January 1 following assessment, and subject to lien and sale April 30 following the delinquency date.

E. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements and proprietary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as are the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Health And Civic Center Fund - This fund is used to account for the activities of the Health And Civic Center. The primary source of revenue for this fund is office space rental. The primary expenditures of this fund are building and maintenance expenditures.

Revolving Loan Fund - This fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. It is considered a Special Revenue Fund.

The government also has the following non-major funds: Local Government Economic Assistance Fund (LGEA), Juvenile Fund, and Emergency Food and Shelter Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Finneran Fund is a non-major fund and is presented as a Permanent Fund. This fund is used to account for trust arrangements in which the reporting government is the beneficiary of the earnings on the principal. The Finneran Fund is presented on the statement of net assets as restricted and designated as expendable or nonexpendable.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 5,000	10-50

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Mount Sterling/Montgomery County Airport and Mount Sterling -- Montgomery County 911 Board meet the criteria noted above and are disclosed as an organization jointly governed by the city of Mount Sterling and Montgomery County.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county maintains deposits at multiple depository institutions. However, one of the depository institutions did not have a written agreement with the county securing the county's interest in collateral. The total bank balance as of June 30, 2006 was \$2,818,183, of this amount \$150,000 of public funds were uninsured and unsecured.

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, \$150,000 of the County's bank balance of \$2,818,183 was exposed to custodial credit risk as follows.

Uninsured and unsecured	\$150,000
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MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 584,000	\$	\$	\$ 584,000
Total Capital Assets Not Being Depreciated	584,000			584,000
Capital Assets, Being Depreciated:				
Buildings	6,228,306	66,565		6,294,871
Other Equipment	402,052	99,905		501,957
Vehicles and Equipment	1,043,416	13,490	(40,000)	1,016,906
Infrastructure	904,287	714,452		1,618,739
Total Capital Assets Being Depreciated	8,578,061	894,412	(40,000)	9,432,473
Less Accumulated Depreciation For:				
Buildings	(2,546,650)	(126,278)		(2,672,928)
Other Equipment	(277,469)	(49,961)		(327,430)
Vehicles and Equipment	(822,932)	(63,857)	38,550	(848,239)
Infrastructure	(58,642)	(64,750)		(123,392)
Total Accumulated Depreciation	(3,705,693)	(304,846)	38,550	(3,971,989)
Total Capital Assets, Being Depreciated, Net	4,872,368	589,566	(1,450)	5,460,484
Governmental Activities Capital Assets, Net	\$ 5,456,368	\$ 589,566	\$ (1,450)	\$ 6,044,484

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 66,402
Protection to Persons and Property	99,892
General Health and Sanitation	32,088
Recreation and Culture	
Roads, Including Depreciation of General Infrastructure Assets	106,464
Total Depreciation	<u>\$ 304,846</u>

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

4. Notes Receivable

A. The county loaned \$600,000 to Thornberry Enterprises, Inc. on September 22, 1994, for the purpose of constructing a wood products manufacturing facility. Terms of agreement stipulate a ten-year repayment schedule at 3.0 percent interest. Thornberry Enterprises, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2006, the principal balance due was \$68,412. The total amount due in fiscal year 2007 is \$68,412.

B. The county loaned \$50,000 to Cabin Hill Properties, LLC, on May 4, 2004. Terms of the agreement stipulate a seven-year repayment schedule at 5.0 percent interest. As of June 30, 2006, the principal balance due was \$36,898. The total amount due in fiscal year 2007 is \$6,790.

Note 5. Short-term Debt

In July 2005, Montgomery County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$3,997,500 with principal being due in January 2006. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$18,310.

Short-term liability activity for the year ended June 30, 2006, was as follows:

Primary Government:	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Kentucky Advance Revenue Program	\$	\$ 3,997,500	\$ 3,997,500	\$

Note 6. Revenue Bonds

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rate, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue to be paid in full on October 1, 2014. Revenue bonds outstanding as of June 30, 2006, totaled \$446,012. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 38,270	\$ 27,064
2008	40,697	24,561
2009	43,277	21,899
2010	46,021	19,068
2011	48,938	16,058
2012-2015	228,809	30,127
Totals	\$ 446,012	\$ 138,777

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Financing Obligations

A. Industrial Park Expansion

The county entered into a lease purchase agreement on March 25, 2002, with the Kentucky Association of Counties Leasing Trust for the purchase of land for the expansion of the industrial park. The principal amount was \$499,000. Interest payments are due monthly at a variable interest rate between 3.25% and 2.175 % for five years. The principal amount of \$400,000 is due on March 20, 2007. As of June 30, 2006, the principal outstanding was \$400,000. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 400,000	\$ 14,810
Totals	\$ 400,000	\$ 14,810

B. Sheriff's Office Vehicles

The county entered into a lease purchase agreement on December 21, 2004, with Farmers Bank and Capital Trust Company for the purchase of vehicles for the Montgomery County Sheriff's Office. The principal amount was \$117,000 and the lease stipulates a term of 36 months. As of June 30, 2006, the principal outstanding was \$60,818. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 40,007	\$ 2,260
2008	20,811	323
	\$ 60,818	\$ 2,583

C. Vehicles

The county entered into a lease purchase agreement on November 19, 2002, with Farmers Bank and Trust Company for the purchase of a vehicle. The principal amount was \$21,734 and the lease stipulates a term of 36 months. As of June 30, 2006, the lease was paid in full.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Financing Obligations (Continued).

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds (Note 6)	\$ 482,001		\$ 35,989	\$ 446,012	\$ 38,270
Financing Obligations	600,966		140,148	460,818	440,007
Governmental Activities					
Long-term Liabilities	<u>\$ 1,082,967</u>	<u>\$ 0</u>	<u>\$ 176,137</u>	<u>\$ 906,830</u>	<u>\$ 478,277</u>

Note 8. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$26,768 in interest on financing obligations and \$29,418 in interest on bonds and notes.

Note 9. Related Party Transactions

The Montgomery County Treasurer's wife is a Vice President at Mount Sterling Bank. This bank is one of the depository institutions used by the County.

Note 10. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer cost sharing defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 11. Insurance

For the fiscal year ended June 30, 2006, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Subsequent Events

On July 18, 2006 the Montgomery County Fiscal Court approved a \$150,250 payment to the Montgomery County Industrial Authority for the purpose of acquiring equipment that will be leased to Magnaflex Industries.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended 2006

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,595,200	\$ 3,595,200	\$ 3,863,216	\$ 268,016
Excess Fees	63,250	63,250	209,437	146,187
Licenses and Permits	107,500	107,500	110,225	2,725
Intergovernmental Revenue	4,657,000	4,657,000	500,301	(4,156,699)
Miscellaneous	73,460	73,460	81,150	7,690
Interest	75,000	103,493	141,190	37,697
Total Revenues	8,571,410	8,599,903	4,905,519	(3,694,384)
EXPENDITURES				
General Government	5,567,519	5,711,246	1,564,434	4,146,812
Protection to Persons and Property	283,061	368,097	363,503	4,594
General Health and Sanitation	661,168	667,688	175,054	492,634
Social Services	89,000	91,750	85,823	5,927
Recreation and Culture	112,000	112,000	83,873	28,127
Airports	25,000	25,000	25,000	0
Debt Service	3,237,000	3,786,193	3,786,193	0
Administration	1,910,986	1,639,038	1,510,348	128,690
Total Expenditures	11,885,734	12,401,012	7,594,228	4,806,784
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(3,314,324)	(3,801,109)	(2,688,709)	1,112,400
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	3,200,000	3,720,700	3,720,700	0
Transfers From Other Funds			75,000	75,000
Transfers To Other Funds	(985,676)	(985,676)	(841,443)	144,233
Total Other Financing Sources (Uses)	2,214,324	2,735,024	2,954,257	219,233
Net Changes in Fund Balance	(1,100,000)	(1,066,085)	265,548	1,331,633
Fund Balance - Beginning	1,100,000	1,100,000	1,362,025	262,025
Fund Balance - Ending	\$ 0	\$ 33,915	\$ 1,627,573	\$ 1,593,658

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,105,451	\$ 1,105,451	\$ 1,176,484	\$ 71,033
Miscellaneous	2,000	2,000	8,455	6,455
Interest		4,872	6,140	1,268
Total Revenues	<u>1,107,451</u>	<u>1,112,323</u>	<u>1,191,079</u>	<u>78,756</u>
EXPENDITURES				
Roads	1,456,256	1,433,090	1,364,801	68,289
Debt Service		281,672	281,672	0
Road Facilities		21,618	21,618	0
Administration	199,800	201,348	200,365	983
Total Expenditures	<u>1,656,056</u>	<u>1,937,728</u>	<u>1,868,456</u>	<u>69,272</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(548,605)</u>	<u>(825,405)</u>	<u>(677,377)</u>	<u>148,028</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		276,800	276,800	0
Transfers From Other Funds	548,605	548,605	400,273	(148,332)
Total Other Financing Sources (Uses)	<u>548,605</u>	<u>825,405</u>	<u>677,073</u>	<u>(148,332)</u>
Net Changes in Fund Balance			(304)	(304)
Fund Balance - Beginning			23,849	23,849
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,545</u>	<u>\$ 23,545</u>

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,180,800	\$ 1,180,800	\$ 1,163,930	\$ (16,870)
Charges for Services	115,000	115,000	93,898	(21,102)
Miscellaneous	27,500	27,500	34,038	6,538
Interest	200	200	367	167
Total Revenues	1,323,500	1,323,500	1,292,233	(31,267)
EXPENDITURES				
Protection to Persons and Property	1,273,198	1,363,096	1,337,809	25,287
Debt Service	66,548	66,548	68,000	(1,452)
Administration	388,325	313,427	305,043	8,384
Total Expenditures	1,728,071	1,743,071	1,710,852	32,219
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(404,571)	(419,571)	(418,619)	952
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	404,571	404,571	408,670	4,099
Total Other Financing Sources (Uses)	404,571	404,571	408,670	4,099
Net Changes in Fund Balance		(15,000)	(9,949)	5,051
Fund Balance - Beginning			30,701	30,701
Fund Balance - Ending	\$ 0	\$ (15,000)	\$ 20,752	\$ 35,752

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

HEALTH AND CIVIC CENTER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 45,000	\$ 45,000	\$ 45,735	\$ 735
Charges For Services	15,000	15,000	15,692	692
Miscellaneous	107,500	107,500	110,105	2,605
Interest	3,025	3,025	1,612	(1,413)
Total Revenues	170,525	170,525	173,144	2,619
EXPENDITURES				
General Health and Sanitation	103,500	103,500	87,771	15,729
Admin	247,025	247,025	17,545	229,480
Total Expenditures	350,525	350,525	105,316	245,209
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(180,000)	(180,000)	67,828	247,828
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(75,000)	(75,000)
Total Other Financing Sources (Uses)			(75,000)	(75,000)
Net Changes in Fund Balances	(180,000)	(180,000)	(7,172)	172,828
Fund Balances - Beginning	180,000	180,000	269,558	89,558
Fund Balances - Ending	\$ 0	\$ 0	\$ 262,386	\$ 262,386

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous Revenue	\$ 78,000	\$ 78,000	\$ 78,004	\$ 4
Interest	9,500	9,500	11,781	2,281
Total Revenues	87,500	87,500	89,785	2,285
EXPENDITURES				
Administration	487,500	487,500	23,175	464,325
Total Expenditures	487,500	487,500	23,175	464,325
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(400,000)	(400,000)	66,610	466,610
Net Changes in Fund Balances	(400,000)	(400,000)	66,610	466,610
Fund Balances - Beginning	400,000	400,000	401,181	1,181
Fund Balances - Ending	\$ 0	\$ 0	\$ 467,791	\$ 467,791

MONTGOMERY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances

	Revenues	Expenditures	Other Financing Sources (Uses)
General Fund			
Budgetary Comparison Schedule	\$ 4,905,519	\$ 7,594,228	\$ 2,954,257
Principle and Interest Payment on			
Land from the Industrial Authority	121,604	121,604	0
KARP Interest	(65,493)	(65,493)	0
Kentucky Advanced Revenue			
Program Principal Payments		(3,720,700)	(3,720,700)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 4,961,630</u>	<u>\$ 3,929,639</u>	<u>\$ (766,443)</u>

	Revenues	Expenditures	Other Financing Sources (Uses)
Road Fund			
Budgetary Comparison Schedule	\$ 1,191,079	\$ 1,868,456	\$ 677,073
KARP Interest	(4,872)	(4,872)	0
Kentucky Advanced Revenue			
Program Principal Payments		(276,800)	(276,800)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 1,186,207</u>	<u>\$ 1,586,784</u>	<u>\$ 400,273</u>

**COMBINING BALANCE SHEET - NON-MAJOR
GOVERNAMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2006

COMBINING BALANCE SHEET - NON-MAJOR
GOVERNAMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	LGEA Fund	Juvenile Fund	Emergency Food And Shelter Fund	Finneran Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 47,001	\$	\$ 7,345	\$ 79,484	\$ 133,830
Total Assets	<u>\$ 47,001</u>	<u>\$ 0</u>	<u>\$ 7,345</u>	<u>\$ 79,484</u>	<u>\$ 133,830</u>
FUND BALANCES					
Reserved for:					
Permanent Fund - Senior Care				75,000	75,000
Unreserved:					
Special Revenue Funds	47,001		7,345	4,484	58,830
Total Fund Balances	<u>\$ 47,001</u>	<u>\$ 0</u>	<u>\$ 7,345</u>	<u>\$ 79,484</u>	<u>\$ 133,830</u>

**COMBING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNAMENTAL FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNAMENTAL FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

	LGEA Fund	Juvenile Fund	Emergency Food And Shelter Fund	Finneran Fund	Total Non-Major Governmental Funds
REVENUES					
Intergovernmental	\$ 86,757	\$	\$ 21,824	\$	\$ 108,581
Interest				1,960	1,960
Total Revenues	<u>86,757</u>	<u>0</u>	<u>21,824</u>	<u>1,960</u>	<u>110,541</u>
EXPENDITURES					
Protection to Persons and Property		32,500			32,500
Social Services			14,479		14,479
Roads	98,916				98,916
Capital Projects				4,301	4,301
Total Expenditures	<u>98,916</u>	<u>32,500</u>	<u>14,479</u>	<u>4,301</u>	<u>150,196</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources/(Uses)	<u>(12,159)</u>	<u>(32,500)</u>	<u>7,345</u>	<u>(2,341)</u>	<u>(39,655)</u>
Other Financing Sources/(Uses)					
Transfers From Other Funds		32,500			32,500
Total Other Financing Sources/(Uses)		32,500			32,500
Net Change in Fund Balances	(12,159)		7,345	(2,341)	(7,155)
Fund Balances - Beginning	59,160			81,825	140,985
Fund Balances - Ending	<u>\$ 47,001</u>	<u>\$ 0</u>	<u>\$ 7,345</u>	<u>\$ 79,484</u>	<u>\$ 133,830</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Morgan-Franklin, LLC

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West Liberty, Kentucky 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

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The Honorable B.D. Wilson, Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise Montgomery County Kentucky's basic financial statements and have issued our report thereon dated November 22, 2006. Montgomery County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item:

2006-1 The Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of Montgomery County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morgan - Franklin, LLC".

Morgan-Franklin, LLC

Audit fieldwork completed -
November 22, 2006

MONTGOMERY COUNTY FISCAL COURT
COMMENT AND RECOMMENDATION
Fiscal Year Ended June 30, 2006

NONCOMPLIANCES

2006-1 The Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 30, 2006, \$150,000 of the Fiscal Court's deposits of funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Fiscal Court should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Fiscal Court enter into a written agreement with the depository institution to secure the Fiscal Court's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

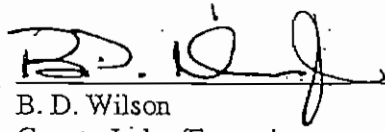
Judge/Executive B.D. Wilson's Response: The Treasurer will insure the bank in question will pledge sufficient collateral. The Treasurer will get a letter of agreement signed as soon as possible.

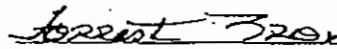
Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC PROGRAMS
MONTGOMERY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2006

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.


B. D. Wilson
County Judge/Executive


Forrest Brown
County Treasurer